

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Romulus, Michigan</u>	County <u>Wayne</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>November 3, 2004</u>	Date Accountant Report Submitted To State: <u>December 30, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature 			

# **City of Romulus, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Romulus, Michigan

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit)	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds:	
Statement of Net Assets	15
Statement of Revenue, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Fiduciary Funds:	
Statement of Net Assets	18
Statement of Changes in Net Assets	19
Component Units:	
Statement of Net Assets (Deficit)	20
Statement of Activities	21-22
Notes to Financial Statements	23-47
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule - General Fund	48-49

### Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	50-51
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	52-53
Internal Service Funds:	
Combining Statement of Net Assets	54
Combining Statement of Revenue, Expenses, and Changes in Net Assets	55
Combining Statement of Cash Flows	56
Agency Funds - Combining Statement of Assets and Liabilities	57

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Romulus, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Romulus, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



To the Honorable Mayor and  
Members of the City Council  
City of Romulus, Michigan

**Plante & Moran, PLLC**  
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Romulus, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2004 on our consideration of the City of Romulus, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

November 3, 2004

# City of Romulus, Michigan

## Management's Discussion and Analysis

The following discussion and analysis of the City of Romulus, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2004:

- Again this year, state-shared revenue was reduced by the State of Michigan by approximately \$187,000. This represents a 7.5 percent decrease from the prior year and a decrease of 20.1 percent from 2001.
- Property taxes are the City's single, largest source of revenue. The City's taxable value for fiscal year 2003/2004 was \$1,130,168,582 (ad valorem), which represents an increase of \$133,570,851 or 13 percent.
- In April 2003, the State law that regulates the distribution of airport parking fees was amended to provide the City with consistent annual revenue of \$1,500,000. This funding will be in place for approximately 20 years or until debt service for designated State bonds has been paid off. Due to timing based upon the implementing language of these amendments, the General Fund received revenue of only \$578,372 in fiscal year 2002/2003. In fiscal year 2003/2004, there was a revenue catch-up adjustment, which resulted in the General Fund receiving \$2,757,488.
- In an addendum to the City's 1997 agreement with Northwest Airlines, additional inspection fees of \$402,710 were received for inspections performed through December 31, 2003.
- During fiscal year 2002/2003, the City of Romulus entered into a contract with Centax Homes for the sale of approximately 59 acres of property and an assignment fee, which resulted in a one-time revenue to the City of \$404,861.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

# City of Romulus, Michigan

## Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report City operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004 and June 30, 2003 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current assets	\$ 14,181	\$ 14,788	\$ 10,685	\$ 12,836	\$ 24,866	\$ 27,624
Noncurrent assets	44,474	41,774	53,548	52,736	98,022	94,510
Total assets	58,655	56,562	64,233	65,572	122,888	122,134
<b>Liabilities</b>						
Current liabilities	2,918	3,322	3,601	3,484	6,519	6,806
Long-term liabilities	6,436	6,134	28,332	30,093	34,768	36,227
Total liabilities	9,354	9,456	31,933	33,577	41,287	43,033
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	38,133	35,770	23,576	21,093	61,709	56,863
Restricted	3,433	4,228	5,682	9,713	9,115	13,941
Unrestricted	7,735	7,108	3,042	1,189	10,777	8,297
Total net assets	<u>\$ 49,301</u>	<u>\$ 47,106</u>	<u>\$ 32,300</u>	<u>\$ 31,995</u>	<u>\$ 81,601</u>	<u>\$ 79,101</u>

The City of Romulus' combined net assets increased by \$2.5 million to a total of \$81.6 million. The net assets of the governmental activities increased \$2.2 million or 4.7 percent and business-type activities increased \$305,000 or .95 percent. The increases in the governmental activities were primarily a result of the one-time revenue sources described in the financial highlight section.



# City of Romulus, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Net Assets - Beginning of year</b>	\$ 47,106	\$ 47,767	\$ 31,995	\$ 31,315	\$ 79,101	\$ 79,082
<b>Revenue</b>						
Program revenue:						
Charges for services	4,198	4,320	8,187	7,398	12,385	11,718
Operating grants and contributions	2,240	4,245	-	-	2,240	4,245
Capital grants and contributions	4,787	30	10	8	4,797	38
General revenue:						
Property taxes:						
City	8,817	8,732	-	-	8,817	8,732
Sanitation	621	721	-	-	621	721
Street lighting	326	326	-	-	326	326
EPA	-	-	1,765	2,193	1,765	2,193
State-shared revenue	5,579	2,583	-	-	5,579	2,583
Unrestricted investment earnings	216	408	114	184	330	592
Gain on sale of capital assets	366	-	-	-	366	-
Miscellaneous revenue	1,060	606	50	86	1,110	692
Total revenue	28,210	21,971	10,126	9,869	38,336	31,840
<b>Program Expenses</b>						
General government	4,243	3,665	-	-	4,243	3,665
Public safety	9,628	9,250	-	-	9,628	9,250
Public works	10,364	8,204	-	-	10,364	8,204
Health and welfare	218	181	-	-	218	181
Community and economic development	512	388	-	-	512	388
Recreation and culture	901	802	-	-	901	802
Interest on long-term debt	149	142	-	-	149	142
Water and sewer	-	-	9,821	9,189	9,821	9,189
Total program expenses	26,015	22,632	9,821	9,189	35,836	31,821
<b>Change in Net Assets</b>	2,195	(661)	305	680	2,500	19
<b>Net Assets - End of year</b>	<u>\$ 49,301</u>	<u>\$ 47,106</u>	<u>\$ 32,300</u>	<u>\$ 31,995</u>	<u>\$ 81,601</u>	<u>\$ 79,101</u>

### Governmental Activities

The City's total governmental revenues increased by approximately \$6.2 million, despite large decreases in state-shared revenue and interest income. The increase, which represents 28 percent, was due primarily to the one-time catch-up adjustment of airport parking fees.

Expenses increased by \$3.4 million during the year. Increases were led by increases in health care costs and infrastructure related items.

# **City of Romulus, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage treatment through Wayne County Downriver Sewage Disposal System and Rouge Valley Sewage Disposal System. Although water and sewer rates had been adjusted in July 2003, there was an operating loss again this year.

### **The City's Funds**

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2004 include the General Fund and the Water and Sewer Fund. The Water and Sewer Fund is described above.

The General Fund pays for most of the City's governmental services. The most noteworthy are police and fire, which incurred expenses of approximately \$9.6 million in 2004. Additionally, the building and grounds department is significant in that it contains 12 percent of the total General Fund expenditures.

### **General Fund Budgetary Highlights**

As previously stated, the City of Romulus received several one-time revenues that significantly affected the City's projected fund balance. It must be understood that, although the City's financial position has improved, we do not expect these revenues to repeat in the future; therefore, we must continue to closely monitor expenditures and enhance revenues.

### **Capital Asset and Debt Administration**

The City will again take advantage of the historically low interest rates by refunding bond issues within the Building Authority and TIFA Funds. These refunds are expected to take place in 2004/2005.

The City has several construction projects in various stages of completion. The Ball Road and Fourth Street water main replacement projects are in their final stage of completion. The design engineering for the Wahrman Road Reconstruction Project within the TIFA Fund is near completion. The Merriman Road Enhancement Project is a project within the TIFA District that is utilizing grant funds to provide street lighting, sidewalks, and landscape improvements. The project should be completed within 2004/2005.

# **City of Romulus, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year requires \$1.9 million of fund balance in order to provide a balanced budget. Because of reductions in several of the City's major revenue sources, the City needs to continue to watch its budget very closely.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at City Hall.

# City of Romulus, Michigan

## Statement of Net Assets (Deficit) June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 7,674,617	\$ 3,843,166	\$ 11,517,783	\$ 10,193,876
Receivables - Net (Note 4)	4,544,541	2,083,009	6,627,550	1,899
Accounts receivable from component units (Note 6)	368,659	36,426	405,085	-
Accounts receivable from primary government (Note 6)	-	-	-	12,890
Due from other governmental units	1,280,959	-	1,280,959	1,083
Inventories	192,642	36,661	229,303	-
Prepaid costs and other assets	119,277	-	119,277	-
Restricted assets (Note 7)	-	4,685,523	4,685,523	-
Capital assets - Net (Note 5):				
Assets not being depreciated	6,094,908	3,319,305	9,414,213	337,699
Assets being depreciated	38,379,471	50,228,764	88,608,235	-
Total assets	58,655,074	64,232,854	122,887,928	10,547,447
<b>Liabilities</b>				
Accounts payable	809,509	1,039,171	1,848,680	558,646
Accrued and other liabilities	512,372	737,330	1,249,702	14,954
Retainage payable	10,284	56,432	66,716	-
Customer deposits payable	-	54,152	54,152	-
Claims payable	521	-	521	-
Accounts payable to primary government (Note 6)	-	-	-	405,085
Accounts payable to component units (Note 6)	12,890	-	12,890	-
Due to other governmental units	327	-	327	105,023
Deferred revenue (Note 4)	239,363	-	239,363	-
Compensated absences due within one year	654,523	59,459	713,982	21,649
Debt obligations due within one year (Note 8)	677,857	1,654,689	2,332,546	975,000
Noncurrent liabilities:				
Accrued liabilities due in more than one year	372,246	-	372,246	-
Compensated absences due in more than one year	400,069	14,865	414,934	5,413
Debt obligations due in more than one year (Note 8)	5,663,816	28,316,925	33,980,741	9,290,000
Total liabilities	9,353,777	31,933,023	41,286,800	11,375,770
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	38,132,706	23,576,455	61,709,161	337,699
Restricted:				
Streets and highways	2,258,698	-	2,258,698	-
Sanitation	102,015	-	102,015	-
Debt service	54,871	-	54,871	-
Capital projects	206,626	-	206,626	-
Other purposes	811,064	5,681,625	6,492,689	-
Unrestricted	7,735,317	3,041,751	10,777,068	(1,166,022)
Total net assets (deficit)	\$ 49,301,297	\$ 32,299,831	\$ 81,601,128	\$ (828,323)

# City of Romulus, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 4,242,852	\$ 1,058,200	\$ 80,898	\$ -
Public safety	9,627,573	1,441,068	280,794	204,819
Public works	10,364,120	1,624,396	1,705,426	4,581,181
Health and welfare	217,668	-	-	-
Community and economic development	511,716	-	172,442	-
Recreation and culture	901,490	74,603	-	700
Interest on long-term debt	149,351	-	-	-
Total governmental activities	26,014,770	4,198,267	2,239,560	4,786,700
Business-type activities - Water and sewer	9,821,357	8,186,909	-	10,087
Total primary government	<u>\$ 35,836,127</u>	<u>\$ 12,385,176</u>	<u>\$ 2,239,560</u>	<u>\$ 4,796,787</u>
Component units:				
Tax Increment Financing Authority	\$ 1,911,156	\$ -	\$ -	\$ -
Downtown Development Authority	524,301	-	-	-
Economic Development Corporation	34,097	-	-	-
Total component units	<u>\$ 2,469,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes:				
City				
Sanitation				
Street lighting				
EPA				
Component unit				
State-shared revenues				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous				
Total general revenue				
<b>Change in Net Assets</b>				
<b>Net Assets (Deficit) - Beginning of year</b>				
<b>Net Assets (Deficit) - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,103,754)	\$ -	\$ (3,103,754)	\$ -
(7,700,892)	-	(7,700,892)	-
(2,453,117)	-	(2,453,117)	-
(217,668)	-	(217,668)	-
(339,274)	-	(339,274)	-
(826,187)	-	(826,187)	-
(149,351)	-	(149,351)	-
(14,790,243)	-	(14,790,243)	-
-	(1,624,361)	(1,624,361)	-
(14,790,243)	(1,624,361)	(16,414,604)	-
-	-	-	(1,911,156)
-	-	-	(524,301)
-	-	-	(34,097)
-	-	-	(2,469,554)
8,816,827	-	8,816,827	-
621,468	-	621,468	-
325,552	-	325,552	-
-	1,765,273	1,765,273	-
-	-	-	6,336,233
5,578,895	-	5,578,895	-
215,665	113,807	329,472	117,483
366,377	-	366,377	-
1,060,349	50,337	1,110,686	3,461
16,985,133	1,929,417	18,914,550	6,457,177
2,194,890	305,056	2,499,946	3,987,623
47,106,407	31,994,775	79,101,182	(4,815,946)
<b>\$ 49,301,297</b>	<b>\$ 32,299,831</b>	<b>\$ 81,601,128</b>	<b>\$ (828,323)</b>

# City of Romulus, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 2,357,959	\$ 3,342,146	\$ 5,700,105
Receivables - Net	2,588,905	1,946,282	4,535,187
Prepaid costs and other assets	119,278	-	119,278
Due from other funds (Note 6)	-	45,892	45,892
Accounts receivable from component units (Note 6)	264,921	103,738	368,659
Due from other governmental units	519,248	340,370	859,618
Inventories	24,152	129,558	153,710
Total assets	<b>\$ 5,874,463</b>	<b>\$ 5,907,986</b>	<b>\$ 11,782,449</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 275,773	\$ 480,592	\$ 756,365
Accrued and other liabilities	660,131	37,263	697,394
Retainage payable	-	10,284	10,284
Due to other funds (Note 6)	45,892	22,573	68,465
Accounts payable to component units (Note 6)	11,871	1,019	12,890
Due to other governmental units	327	-	327
Deferred revenue (Note 4)	1,609,156	1,946,134	3,555,290
Total liabilities	2,603,150	2,497,865	5,101,015
<b>Fund Balances</b>			
Reserved (Note 9)	47,305	272,546	319,851
Unreserved - Designated for subsequent year's expenditures -			
Reported in:			
General Fund	1,988,545	-	1,988,545
Special Revenue Funds	-	746,302	746,302
Debt Service Funds	-	32,115	32,115
Unreserved - Undesignated:			
General Fund	1,235,463	-	1,235,463
Special Revenue Funds	-	2,129,776	2,129,776
Debt Service Funds	-	22,756	22,756
Capital Projects Fund	-	206,626	206,626
Total fund balances	3,271,313	3,410,121	6,681,434
Total liabilities and fund balances	<b>\$ 5,874,463</b>	<b>\$ 5,907,986</b>	<b>\$ 11,782,449</b>

# City of Romulus, Michigan

## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) Year Ended June 30, 2004**

**Fund Balances - Total Governmental Funds** \$ 6,681,434

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 40,967,314

Special assessment, State-shared revenue, and Metro World Centre, Ltd. receivables are expected to be collected over several years and are not available to pay current year expenditures 2,680,524

Grant revenue and delinquent personal property tax not collected within 60 days of year end are recognized as revenue in the statement of net assets (deficit), but shown as deferred revenue in the funds 1,056,743

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Compensated absences	(820,690)
Judgments	(372,246)
Long-term debt and accrued interest	(5,220,000)

Internal Service Funds are also included as governmental activities 4,328,218

**Change in Net Assets of Governmental Activities** \$ 49,301,297



# City of Romulus, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 9,189,073	\$ 947,020	\$ 10,136,093
Licenses and permits	1,452,099	-	1,452,099
Federal sources	82,261	470,327	552,588
Intergovernmental revenues	5,344,757	1,540,562	6,885,319
Charges for services	1,571,089	-	1,571,089
Fines and forfeitures	1,108,849	98,359	1,207,208
Investment income	164,081	34,228	198,309
Other	757,413	574,274	1,331,687
	<hr/>	<hr/>	<hr/>
Total revenue	19,669,622	3,664,770	23,334,392
<b>Expenditures</b>			
Current:			
Legislative	61,566	-	61,566
General government	5,618,591	116,021	5,734,612
Public safety	10,586,421	338,265	10,924,686
Public works	669,131	3,733,982	4,403,113
Health and welfare	511,449	-	511,449
Recreation and culture	864,177	379,271	1,243,448
Capital outlay	-	634	634
Debt service	-	740,751	740,751
	<hr/>	<hr/>	<hr/>
Total expenditures	18,311,335	5,308,924	23,620,259
<b>Excess of Revenue Over (Under) Expenditures</b>	1,358,287	(1,644,154)	(285,867)
<b>Other Financing Sources (Uses)</b>			
Transfers in	18,583	878,620	897,203
Transfers out	(601,746)	(298,583)	(900,329)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(583,163)	580,037	(3,126)
<b>Net Change in Fund Balances</b>	775,124	(1,064,117)	(288,993)
<b>Fund Balances - Beginning of year</b>	2,496,189	4,474,238	6,970,427
	<hr/>	<hr/>	<hr/>
<b>Fund Balances - End of year</b>	<u>\$ 3,271,313</u>	<u>\$ 3,410,121</u>	<u>\$ 6,681,434</u>

# City of Romulus, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (288,993)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	1,154,893
Capital contributions from TIFA and outside developers are not a current financial resource	4,050,211
Depreciation on capital assets reported on governmental funds report as capital outlays expenditures	(3,049,232)
Gain on sale of capital assets is not reported in the governmental funds	(62,119)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(82,741)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	468,032
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	480,000
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	124,747
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(372,246)
Internal Service Funds are also included as governmental activities	(227,662)

**Change in Net Assets of Governmental Activities** \$ 2,194,890

# City of Romulus, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,843,166	\$ 1,974,512
Receivables - Net	2,083,009	9,354
Due from other funds (Note 6)	-	22,573
Accounts receivable from component units (Note 6)	36,426	-
Inventories	36,661	38,932
Total current assets	5,999,262	2,045,371
Noncurrent assets:		
Restricted assets	4,685,523	-
Capital assets	53,548,069	3,507,065
Total noncurrent assets	58,233,592	3,507,065
Total assets	64,232,854	5,552,436
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,039,171	53,145
Accrued and other liabilities	737,330	12,319
Retainage payable	56,432	-
Customer deposits payable	54,152	-
Claims payable	-	521
Current portion of compensated absences	59,459	29,248
Current portion of long-term debt	1,654,689	317,857
Total current liabilities	3,601,233	413,090
Noncurrent liabilities:		
Provision for compensated absences	14,865	7,312
Long-term debt - Net of current portion	28,316,925	803,816
Total noncurrent liabilities	28,331,790	811,128
Total liabilities	31,933,023	1,224,218
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	23,576,455	2,385,392
Restricted	5,681,625	-
Unrestricted	3,041,751	1,942,826
Total net assets	<u>\$ 32,299,831</u>	<u>\$ 4,328,218</u>

# City of Romulus, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
<b>Operating Revenue</b>		
Charges for services	\$ 8,023,581	\$ 2,352,938
Other charges for services	<u>74,743</u>	<u>18,007</u>
Total operating revenue	8,098,324	2,370,945
<b>Operating Expenses</b>		
Administrative charges	809,662	-
Salaries	941,438	337,290
Sewer and water disposal	4,598,047	-
Operating supplies	47,737	11,225
Repairs and maintenance	125,410	250,057
Gas and oil	-	148,704
Insurance	41,254	681,007
Fringe benefits	466,561	144,777
Equipment rental	349,648	-
Miscellaneous	14,451	20,497
Depreciation	1,447,327	1,033,777
Contractual services	208,506	140,412
Claims and legal	<u>-</u>	<u>68,286</u>
Total operating expenses	<u>9,050,041</u>	<u>2,836,032</u>
<b>Operating Loss</b>	(951,717)	(465,087)
<b>Nonoperating Revenue (Expense)</b>		
Property taxes	1,765,273	-
Investment income	113,810	17,356
Transfers in	-	3,126
Interest expense	(771,316)	(13,286)
Debt service charges	145,766	-
Gain on disposal of assets	<u>3,240</u>	<u>56,293</u>
Total nonoperating revenue	<u>1,256,773</u>	<u>63,489</u>
<b>Change in Net Assets - Before capital contributions</b>	305,056	(401,598)
<b>Capital Contributions from Federal Sources</b>	<u>-</u>	<u>173,936</u>
<b>Change in Net Assets</b>	305,056	(227,662)
<b>Net Assets - Beginning of year</b>	<u>31,994,775</u>	<u>4,555,880</u>
<b>Net Assets - End of year</b>	<u><u>\$ 32,299,831</u></u>	<u><u>\$ 4,328,218</u></u>

# City of Romulus, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 8,915,636	\$ 2,468,482
Payments to suppliers	(6,699,599)	(1,579,685)
Payments to employees	(929,667)	(472,830)
Internal activity - Payments to other funds	(67,098)	(13,983)
Claims paid	-	(37,787)
Net cash provided by operating activities	1,219,272	364,197
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from the sale of fixed assets	3,240	68,953
Proceeds from property tax levy - Restricted for debt service	1,765,273	-
Proceeds from issuance of long-term debt	-	989,593
Payments to County from Debt Service Fund	(1,664,282)	-
Principal paid on long-term debt	(7,592)	(185,770)
Interest paid on long-term debt	(771,316)	-
Debt service charges	145,766	-
Purchase of capital assets	(2,259,076)	(1,478,762)
Net cash used in capital and related financing activities	(2,787,987)	(605,986)
<b>Cash Flows from Noncapital Financing Activities - Transfers</b>	-	3,126
<b>Cash Flows from Investing Activities - Investment income</b>	113,810	17,356
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,454,905)	(221,307)
<b>Cash and Cash Equivalents - Beginning of year</b>	9,983,594	2,195,819
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 8,528,689</b>	<b>\$ 1,974,512</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Cash and investments	\$ 3,843,166	\$ 1,974,512
Restricted investments (Note 3)	4,685,523	-
<b>Total cash and cash equivalents</b>	<b>\$ 8,528,689</b>	<b>\$ 1,974,512</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (951,717)	\$ (465,087)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,447,327	1,033,777
Changes in assets and liabilities:		
Receivables	96,915	(7,685)
Due from other funds	579,477	114,088
Due from other governmental units	70,425	(293)
Inventory	16,342	(8,866)
Accounts payable	(506,753)	(296,990)
Accrued and other liabilities	534,354	9,236
Due to other funds	(67,098)	(13,983)
<b>Net cash provided by operating activities</b>	<b>\$ 1,219,272</b>	<b>\$ 364,197</b>

# City of Romulus, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund	Agency Funds
<b>Assets</b>		
Investments - Bank investment pool funds	\$ 1,861,249	\$ 5,650,756
Accounts receivable	45,329	1,857
Due from other governmental units	<u>-</u>	<u>138,359</u>
Total assets	1,906,578	<u><u>\$ 5,790,972</u></u>
<b>Liabilities</b>		
Due to other governmental units	-	\$ 2,699,602
Accrued and other liabilities	<u>1,861</u>	<u>3,091,370</u>
Total liabilities	<u>1,861</u>	<u><u>\$ 5,790,972</u></u>
<b>Net Assets</b> - Held in trust for employee benefits	<u><u>\$ 1,904,717</u></u>	

# City of Romulus, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund
<b>Additions</b>	
Investment income:	
Interest income	\$ 31,450
Net decrease in fair value of investments	<u>(11,755)</u>
Total investment income	19,695
Contributions - Employer	<u>543,248</u>
Total additions	562,943
<b>Deductions - Benefit payments</b>	<u>413,301</u>
<b>Net Increase in Net Assets Held for Retirees' Insurance Benefits</b>	149,642
<b>Net Assets Held in Trust for Retiree Insurance Benefits</b>	
Beginning of year	<u>1,755,075</u>
End of year	<u><u>\$ 1,904,717</u></u>

# City of Romulus, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2004

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Totals
<b>Assets</b>				
Cash and investments	\$ 9,673,868	\$ 516,506	\$ 3,502	\$ 10,193,876
Receivables - Accrued interest	1,899	-	-	1,899
Due from other governmental units	-	1,083	-	1,083
Receivable from primary government (Note 6)	-	12,890	-	12,890
Capital assets not being depreciated - Land	-	337,699	-	337,699
Total assets	9,675,767	868,178	3,502	10,547,447
<b>Liabilities</b>				
Accounts payable	545,728	12,918	-	558,646
Accrued and other liabilities	-	3,342	-	3,342
Retainage payable	11,612	-	-	11,612
Payable to primary government (Note 6)	404,996	-	89	405,085
Due to other governmental units	102,950	2,073	-	105,023
Compensated absences:				
Due within one year	12,872	8,777	-	21,649
Due in more than one year	3,218	2,195	-	5,413
Bonds payable:				
Due within one year	805,000	170,000	-	975,000
Due in more than one year	7,515,000	1,775,000	-	9,290,000
Total liabilities	9,401,376	1,974,305	89	11,375,770
<b>Net Assets (Deficit) - Unrestricted</b>	<b>\$ 274,391</b>	<b>\$ (1,106,127)</b>	<b>\$ 3,413</b>	<b>\$ (828,323)</b>



# City of Romulus, Michigan

		Program Revenues		
			Operating	
	Expenses	Charges for Services	Grants/Contributions	Capital Grants/Contributions
Tax Increment Finance Authority - Public works	\$ 1,911,156	\$ -	\$ -	\$ -
Downtown Development Authority - Public works	524,301	-	-	-
Economic Development Corporation - Community development	34,097	-	-	-
Total governmental activities	<u>\$ 2,469,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## General revenues:

Property taxes

Interest income and other

Total general revenues

## Change in Net Assets

**Net Assets (Deficit)** - Beginning of year

**Net Assets (Deficit)** - End of year

**Component Units  
Statement of Activities  
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Total
\$ (1,911,156)	\$ -	\$ -	\$ (1,911,156)
-	(524,301)	-	(524,301)
-	-	(34,097)	(34,097)
(1,911,156)	(524,301)	(34,097)	(2,469,554)
5,732,970	603,263	-	6,336,233
110,260	10,374	310	120,944
5,843,230	613,637	310	6,457,177
3,932,074	89,336	(33,787)	3,987,623
(3,657,683)	(1,195,463)	37,200	(4,815,946)
<u>\$ 274,391</u>	<u>\$ (1,106,127)</u>	<u>\$ 3,413</u>	<u>\$ (828,323)</u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Romulus, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

#### **Reporting Entity**

The City of Romulus, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### **Blended Component Units**

The City of Romulus Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City’s public buildings.

#### **Discretely Presented Component Units**

The following component units are reported within the component units column to emphasize that they are legally separate from the City.

The Economic Development Corporation (the “Corporation”) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation’s governing body, which consists of nine individuals, is appointed by the mayor with the approval of the City Council.

The Downtown Development Authority (the “Development Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Development Authority’s governing body, which consists of seven individuals, is appointed by the mayor with the approval of the City Council. In addition, the Development Authority’s budget is subject to approval by the City Council.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The Tax Increment Finance Authority (the "Finance Authority") was created to promote growth. The Finance Authority's governing body, which consists of 13 individuals, is appointed by the mayor with the approval of the City Council. In addition, the Finance Authority's budget is subject to approval by the City Council.

The Brownfield Redevelopment Authority (the "Brownfield Authority") was created to promote growth by encouraging the correction of environmental damage. The Brownfield Authority's governing body, which consists of five individuals, is appointed by the mayor with the approval of the City Council. In addition, the Brownfield Authority's budget is subject to approval by the City Council. There has been no activity in the Brownfield Authority to date.

Separate financial statements for the above discretely presented component units are not prepared.

The City of Romulus Housing Authority (the "Housing Authority") has not been included in the City's reporting entity because the City lacks the ability to impose its will on the Housing Authority under the guidelines of Governmental Accounting Standards Board Statement Number 14. This entity is subject to separate audit requirements.

#### **Jointly Governed Organizations**

Jointly governed organizations are discussed in Note 15.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period availability; receivables have been recorded for these, along with a "deferred revenue" liability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

### Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental fund:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund is used to account for the activities of the water distribution systems and sewage collection system.

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds account for major vehicle and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the activities of the Retirees' Insurance Benefit Fund, which accumulates resources for postretirement health benefit payments to qualified retirees.

**Agency Funds** - The Agency Funds are used to account for assets held by the City in a trustee capacity for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost for services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average of balance for the principal.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts

**Property Taxes** - Properties are assessed as of December 31 of each year. The related property taxes are billed on July 1 of the following year and became a lien at that time. These taxes are due on September 30 with the final collection date of February 28 before they are added to the county tax rolls, at which time penalties and interest are assessed.

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2003 taxable valuation of the City totaled \$1,130,168,582, on which ad valorem taxes levied consisted of 9.5282 mills for the City's operating purposes, .7000 mills for sanitation, and 1.1801 mills for EPA judgment levy. The ad valorem taxes levied raised approximately \$8,400,000 for operations, \$620,000 for sanitation, and \$1,800,000 for the EPA judgment levy. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Water and Sewer Fund financial statements as tax revenue.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Restricted asset information is included in Note 7.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Infrastructure	20 years
Utility system	50 years
Meters	50 years
Buildings and improvements	33 years
Equipment and machinery	3 to 10 years
Vehicles	12 years



### Note I - Summary of Significant Accounting Policies (Continued)

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act), as amended. The following statements represent a brief synopsis of the major provisions of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget on an activity basis (department), which is in accordance with the State's legal requirements and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In February, the mayor holds a meeting with all departments. At this time, the finance department provides the necessary budget materials with instructions and discusses intended strategies.
2. In March, the mayor and finance director hold meetings with each department to review proposed spending and activities. Working with the finance director, alternative approaches are sought to provide better services and reduce costs. Departmental recommendations are refined by the mayor according to overall City needs and estimated available revenue.
3. The City Charter provides that the mayor must submit his recommendations on the upcoming year's budget on or before the first day of April. With his line item recommendations, the mayor summarizes major policy and concerns, along with his proposed tax levy and the estimated revenue generated in his transmittal letter located in the supplemental schedules section of this document.

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

4. The City Council conducts budget hearings with the mayor and the finance director during the month of April. Citizens are given an opportunity to comment on proposed spending at a City Council public hearing, which is generally held on the first or second Monday in May. Prior to this public hearing, the proposed budget is available to the public in the City Clerk's office for inspection for a period of not less than three weeks. The Council then makes final adjustments to the proposed budget, according to the concerns developed during its public hearings. Under Charter, the City Council must adopt the final budget for the ensuing fiscal year on or before May 15 of each year.
5. The City budget is adopted by resolution, which incorporates the line items in the mayor's recommendations, amendments, and refinements as developed by changing events and concerns established in the Council hearing process, and policy guidelines for expenditure of funds. A vote of four of the seven Council members serving is necessary for budget adoption. The mayor has item veto authority, which he may exercise subsequent to budget adoption.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. Encumbrances outstanding of \$85,411 at June 30, 2004 have been reappropriated into next year's budget. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information. Budgetary comparisons for the Special Revenue Funds can be obtained at City Hall.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

**Fund Deficits** - The City has a deficit in the Downtown Development Authority fund at June 30, 2004 on a government-wide basis, due to long-term debt obligations required to be recognized at that level. On a fund level basis, fund balance is positive; therefore, Michigan law does not consider this to be a fund deficit.

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**State Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall is as follows:

Shortfall at July 1, 2003		\$ (1,151,693)
Current year building permit revenue		1,333,095
Related expenses:		
Direct costs	\$ 1,446,054	
Estimated indirect costs	<u>90,169</u>	
Total construction code expenses		<u>1,536,223</u>
Cumulative shortfall at June 30, 2004		<u>\$ (1,354,821)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of City funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in all of the options discussed above.

The City's deposits and investment policies are in accordance with statutory authority.

### Note 3 - Deposits and Investments (Continued)

At year end, deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 7,674,617	\$ 2,059,327	\$ 7,512,005	\$ 17,245,949	\$ 10,193,876
Restricted assets	-	1,783,839	-	1,783,839	-
Total	<u>\$ 7,674,617</u>	<u>\$ 3,843,166</u>	<u>\$ 7,512,005</u>	<u>\$ 19,029,788</u>	<u>\$ 10,193,876</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,170,144	\$ 1,453,992
Investments in securities, mutual funds, and similar vehicles	10,858,944	8,739,884
Petty cash or cash on hand	700	-
Total	<u>\$ 19,029,788</u>	<u>\$ 10,193,876</u>

The bank balance of the City's deposits is \$8,237,363, of which \$581,578 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The component units' deposits had a bank balance of \$1,448,041, of which \$220,111 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

### Note 3 - Deposits and Investments (Continued)

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were as follows:

	Primary Government	Component Units
U.S. government securities	\$ 1,084,802	\$ -
MBIA Michigan Class	849,611	-
Bank investment pools	8,924,531	8,739,884
Total	<u>\$ 10,858,944</u>	<u>\$ 8,739,884</u>

The U.S. government securities are categorized as risk Category 2. The MBIA Michigan Class and bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The investments under the interlocal agreement (MBIA-CLASS) are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Management believes that the investments in the funds comply with the investment authority noted above.

Included in the City's investments at June 30, 2004 are the following:

- Approximately \$59,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$237,000 of securities issued by the Federal National Mortgage Association (FNMA) and approximately \$534,000 issued by the Federal Home Loan Mortgage Corporation. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate are as follows:

	General Fund	Nonmajor Governmental Funds	Enterprise Fund	Internal Service Funds	Fiduciary Fund	Total
Receivables:						
Taxes	\$ 1,388,357	\$ 99,749	\$ 268,457	\$ -	\$ 1,357	\$ 1,757,920
Accounts	345,836	401,088	1,814,552	9,354	45,829	2,616,659
Note receivable - Metro World Centre, Ltd.	854,712	-	-	-	-	854,712
Special assessment	-	1,445,445	-	-	-	1,445,445
Net receivables	<u>\$ 2,588,905</u>	<u>\$ 1,946,282</u>	<u>\$ 2,083,009</u>	<u>\$ 9,354</u>	<u>\$ 47,186</u>	<u>\$ 6,674,736</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 1,404,470	\$ -
Metro World Centre, Ltd.	854,713	-
Delinquent personal property tax	794,929	-
Receivable from other governmental units	261,815	-
Grant payment received prior to meeting all eligibility requirements	-	239,363
Total	<u>\$ 3,315,927</u>	<u>\$ 239,363</u>

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,614,495	\$ -	\$ (100,713)	\$ 4,513,782
Construction in progress	1,494,670	1,039,685	(953,229)	1,581,126
Subtotal	6,109,165	1,039,685	(1,053,942)	6,094,908
Capital assets being depreciated:				
Land improvements	473,118	-	-	473,118
Buildings and improvements	8,517,905	-	-	8,517,905
Vehicles	5,332,600	1,626,160	(309,355)	6,649,405
Equipment and machinery	6,046,314	141,749	(76,734)	6,111,329
Infrastructure	36,090,745	5,003,440	-	41,094,185
Subtotal	56,460,682	6,771,349	(386,089)	62,845,942
Accumulated depreciation:				
Land improvements	376,332	1,321	-	377,653
Buildings and improvements	2,844,212	585,835	-	3,430,047
Vehicles	3,217,399	771,352	(298,286)	3,690,465
Equipment and machinery	4,538,515	-	(113,734)	4,424,781
Infrastructure	9,819,024	2,724,501	-	12,543,525
Subtotal	20,795,482	4,083,009	(412,020)	24,466,471
Net capital assets being depreciated	35,665,200	2,688,340	25,931	38,379,471
Net capital assets	\$ 41,774,365	\$ 3,728,025	\$ (1,028,011)	\$ 44,474,379



### Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 88,065	\$ -	\$ -	\$ 88,065
Construction in progress	1,370,013	2,003,543	(142,316)	3,231,240
Subtotal	1,458,078	2,003,543	(142,316)	3,319,305
Capital assets being depreciated:				
Buildings	785,130	-	-	785,130
Utility system	68,026,805	142,316	-	68,169,121
Meters	1,228,741	172,920	(2,150)	1,399,511
Equipment	211,672	82,612	-	294,284
Subtotal	70,252,348	397,848	(2,150)	70,648,046
Accumulated depreciation:				
Buildings	525,607	15,703	-	541,310
Utility system	17,548,088	1,347,508	-	18,895,596
Meters	717,199	54,892	(2,150)	769,941
Equipment	183,210	29,225	-	212,435
Subtotal	18,974,104	1,447,328	(2,150)	20,419,282
Net capital assets being depreciated	51,278,244	(1,049,480)	-	50,228,764
Net capital assets	\$ 52,736,322	\$ 954,063	\$ (142,316)	\$ 53,548,069

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 8,499
Public safety	191,029
Public works	2,772,695
Community and economic development	43,003
Recreation and culture	34,006
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	1,033,777
Total governmental activities	\$ 4,083,009
Business-type activities - Water and sewer	\$ 1,447,328

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

#### Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
Internal Service Funds	Nonmajor governmental funds	\$ 22,573
Nonmajor governmental funds	General Fund (major fund)	45,892

#### Due to/from Primary Government and Component Units

Receivable Fund	Payable Fund	Amount
Primary government - General Fund	Component unit - Tax Increment Finance Authority	\$ 264,832
	Component unit - Economic Development Corporation	89
Total primary government - General Fund		264,921
Primary government - Other nonmajor governmental funds	Component unit - Tax Increment Finance Authority	103,738
Primary government - Water and Sewer Fund	Component unit - Tax Increment Finance Authority	36,426
Total primary government		<u>\$ 405,085</u>
Component unit - Downtown Development Authority	Primary government - General Fund	\$ 11,871
Component unit - Downtown Development Authority	Primary government - Other nonmajor funds	1,019
Total Downtown Development Authority		<u>\$ 12,890</u>

Interfund balances arise from the centralized disbursement system as well as the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in:			
General Fund	\$ -	\$ 18,583	\$ 18,583
Nonmajor governmental funds	598,620	280,000	878,620
Internal Service Funds	3,126	-	3,126
Total	<u>\$ 601,746</u>	<u>\$ 298,583</u>	<u>\$ 900,329</u>

The transfers from the General Fund were primarily related to the General Fund's portion of debt service expenditures. Remaining transfers were mainly between the City's two street funds to redistribute ACT 51 revenue from the Major Streets Fund to the Local Streets Fund.

### Note 7 - Restricted Assets

Restricted assets at June 30, 2004 consist of the following:

Cash on deposit at Wayne County	\$ 4,685,523
Cash and investments	<u>1,783,839</u>
Total	<u>\$ 6,469,362</u>

The cash on deposit at Wayne County is being held at Wayne County for County sewage disposal system bonds. These restricted assets resulted from property tax collections and are restricted for debt service payments.

The cash and investments consist of property tax collections held by the City to pay certain Water and Sewer Fund debt service payments.

Net assets have been restricted for these amounts.

### Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:								
General Obligation Bonds:								
Building Authority Bonds - \$4,700,000	5.00%	2013	\$170,000-\$280,000	\$ 2,500,000	\$ -	\$ (295,000)	\$ 2,205,000	\$ 170,000
Beverly Road Bond - \$1,650,000	4.00%-5.10%	2015	\$95,000-\$155,000	1,565,000	-	(90,000)	1,475,000	95,000
Installment purchase agreements - \$1,750,064	4.17%-6.30%	2009	\$28,558-\$213,560	304,565	989,593	(172,485)	1,121,673	317,857
Special Assessment Bonds -								
Beverly Rd. - \$1,650,000	4.00%-5.10%	2021	\$80,000-\$95,000	1,635,000	-	(95,000)	1,540,000	95,000
Total governmental activities				<u>\$ 6,004,565</u>	<u>\$ 989,593</u>	<u>\$ (652,485)</u>	<u>\$ 6,341,673</u>	<u>\$ 677,857</u>
Business-type activities - Wayne County								
Contractual Obligations - \$38,513,282	2.00%-6.30%	2022	\$870,472-\$2,062,810	<u>\$ 31,643,488</u>	<u>\$ -</u>	<u>\$ (1,671,874)</u>	<u>\$ 29,971,614</u>	<u>\$ 1,654,689</u>

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2004

### Note 8 - Long-term Debt (Continued)

Long-term obligation activity for the component units is as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:								
Tax Increment Finance Authority								
General Obligation Bonds -								
\$14,070,000	2.00% - 6.75%	2019	\$260,000-\$935,000	\$ 9,090,000	\$ -	\$ (770,000)	\$ 8,320,000	\$ 805,000
Downtown Development Authority								
General Obligation Bonds -								
\$2,500,000	2.00% - 3.80%	2013	\$170,000-\$235,000	2,085,000	-	(140,000)	1,945,000	170,000
Total governmental activities				\$ 11,175,000	\$ -	\$ (910,000)	\$ 10,265,000	\$ 975,000

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 677,857	\$ 275,096	\$ 952,953	\$ 1,654,689	\$ 731,034	\$ 2,385,723	\$ 975,000	\$ 467,410	\$ 1,442,410
2006	558,690	249,788	808,478	1,696,191	689,684	2,385,875	1,005,000	440,249	1,445,249
2007	581,640	224,888	806,528	1,738,739	647,285	2,386,024	1,035,000	408,294	1,443,294
2008	604,926	198,953	803,879	1,785,572	603,736	2,389,308	1,075,000	374,152	1,449,152
2009	628,560	171,968	800,528	1,827,476	558,429	2,385,905	1,120,000	334,461	1,454,461
2010-2014	2,335,000	516,096	2,851,096	9,829,718	2,067,412	11,897,130	2,530,000	1,208,263	3,738,263
2015-2019	715,000	126,887	841,887	9,574,733	807,596	10,382,329	2,030,000	527,175	2,557,175
2020-2022	240,000	18,360	258,360	1,864,496	42,904	1,907,400	495,000	16,706	511,706
Total	\$ 6,341,673	\$ 1,782,036	\$ 8,123,709	\$ 29,971,614	\$ 6,148,080	\$ 36,119,694	\$ 10,265,000	\$ 3,776,710	\$ 14,041,710

During the year ended June 30, 2000, the County of Wayne, Michigan, on behalf of the City, defeased certain Downriver Sewage Disposal System 1994 Series A bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt services payments on the 1994 Series A bonds. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the City's Enterprise Fund. At June 30, 2004, \$671,000, representing the City's portion of the bonds outstanding, is considered defeased.

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2004

### Note 9 - Reserved/Restricted Fund Balances/Net Assets

Fund balances/net assets have been reserved or restricted for the following purposes:

	General Fund	Nonmajor Governmental Funds	Water and Sewer Fund	Total
Reserved for training grant	\$ 14,442	\$ -	\$ -	\$ 14,442
Reserved for drain maintenance	8,711	-	-	8,711
Reserved for inventory	24,152	129,558	-	153,710
Reserved for grants expenditures	-	142,988	-	142,988
Restricted for debt service	-	-	5,681,625	5,681,625
Total	<u>\$ 47,305</u>	<u>\$ 272,546</u>	<u>\$ 5,681,625</u>	<u>\$ 6,001,476</u>

### Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries (workers' compensation) and for claims relating to general liability and property loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City was a member of the Michigan Municipal Risk Management Authority ("MMRMA") risk pool program prior to July 1, 1998. MMRMA operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to MMRMA that the MMRMA uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

### Note 10 - Risk Management (Continued)

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Property and Liability Self-Insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2004	2003
Unpaid claims - Beginning of year	\$ 38,308	\$ 104,499
Incurred claims (including claims incurred but not reported)	(37,787)	(65,670)
Claim payments	-	(521)
Unpaid claims - End of year	<u>\$ 521</u>	<u>\$ 38,308</u>

### Note 11 - Contingencies

#### Clean Water Act

The City has been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under the terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. These estimated total cost of the project is approximately \$300,000,000, with the City's share estimated to be approximately \$40,000,000. The outstanding balance payable at June 30, 2004 was \$29,971,614. The bonds will be paid through a court-ordered judgment levy.

#### Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

### **Note 11 - Contingencies (Continued)**

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$321,000 from the General Fund as of June 30, 2004. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets (deficit) at June 30, 2004.

The City is also a defendant in other tax appeal cases, none of which the outcome can be reasonably assessed at this time.

#### **Department of Public Works (DPW) Building**

During 2000, the Wayne County Airport Authority agreed to cover the costs associated with building a new DPW facility in exchange for the parcel of land on which the existing DPW facility was located. The memo of understanding between the two parties indicated that the cost of the new facility was not to exceed \$3.2 million. During the year, a claim was made by the Wayne County Airport Authority that approximately \$1.3 million was spent constructing the new facility in excess of the original agreed-upon amount. The City is disputing the amount and no liability has been recorded in the government-wide or fund-based statements. The outcome of the matter is uncertain, as it is in its preliminary stages.

### **Note 12 - Pension Plan - Michigan Municipal Employees' Retirement System**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers certain members of the Police Officers Labor Council and the Police Officers Association of Michigan. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5.0 percent and 2.5 percent of gross wages for Police Officers Labor Council and the Police Officers Association of Michigan, respectively.



### Note 12 - Pension Plan - Michigan Municipal Employees' Retirement System (Continued)

**Annual Pension Costs** - For the year ended June 30, 2004, the City's annual pension cost of \$453,915 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8.0 percent investment rate of return; (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The amortization period is 30 years.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 610,528	\$ 488,916	\$ 453,915
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Actuarial Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 8,773,925	\$ 10,682,288	\$ 11,514,397
Actuarial accrued liability (entry age) (AAL)	\$ 13,068,028	\$ 19,646,625	\$ 20,643,883
Unfunded AAL (UAAL)	\$ 4,294,103	\$ 8,964,337	\$ 9,129,486
Funded ratio	67.1%	54.4%	55.8%
Covered payroll	\$ 4,260,680	\$ 3,736,153	\$ 3,730,721
UAAL as a percentage of covered payroll	100.8%	239.9%	244.7%

### **Note 13 - Defined Contribution Pension Plan**

The City provides pension benefits to all groups not covered in the MMERS plan through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by labor contracts with the approval by the City Council, the City contributes from 5.0 percent to 13.5 percent of employees' gross earnings and employees contribute 1.5 percent to 5.0 percent of earnings. In accordance with these requirements, the City contributed \$507,652 during the current year, and employees contributed \$171,770.

### **Note 14 - Postemployment Benefits**

The City provides health care benefits to substantially all full-time employees upon retirement, in accordance with labor contracts and City personnel policies as approved by the City Council. Currently, 45 retirees are eligible. The City included pre-Medicare retirees and their dependents in its insured health care plan. For certain employee groups, a contribution is required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$458,000.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

### **Note 15 - Joint Venture**

The City is a member of the 34th District Court, which provides services to the city of Romulus, the city of Belleville, and the townships of Huron, Sumpter, and Van Buren. The City has a two-thirds interest in the revenue of the court and provides the annual funding for its operations. During the year, the City received net revenue from the Court of \$1,034,142. The City is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future. Complete financial statements for the 34th District Court can be obtained from the administrative offices at 11131 Wayne Road, Romulus, Michigan.

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund. During the year, the City paid \$2,582,309 for operations of the system and \$2,376,120 for debt service. The City is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future, except as discussed in Note 11. Financial statements for both joint ventures can be obtained from the administrative offices at 415 Clifford, Detroit, MI 48226.

### **Note 16 - Subsequent Events**

During September 2004, the City approved the sale of approximately \$5,490,000 in Tax Increment Finance Authority refunding bonds. These bonds refunded the 1994 Tax Increment Finance Authority bonds.

During November 2004, the City approved the sale of approximately \$3,400,000 in Downtown Development bonds. The proceeds will be used for construction of the Senior Center.

During October 2004, the City entered into a 10-year installment purchase agreement for approximately \$2,400,000 for updating the utility systems in all City buildings.

## **Required Supplemental Information**

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# City of Romulus, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 1,714,254	\$ 2,496,189	\$ 2,496,189	\$ -
<b>Resources (Inflows)</b>				
Property taxes	9,260,421	9,260,421	9,189,073	(71,348)
Licenses and permits	1,247,500	1,258,150	1,452,099	193,949
Federal sources	96,607	112,180	82,261	(29,919)
State sources	4,266,335	4,306,335	5,344,757	1,038,422
Charges for services	1,684,322	1,541,844	1,496,486	(45,358)
Fines and forfeitures	1,165,000	1,235,000	1,108,849	(126,151)
Interest income	300,100	300,100	164,081	(136,019)
Other	197,500	347,019	832,016	484,997
Transfer from other funds	-	-	18,583	18,583
Total resources (inflows)	18,217,785	18,361,049	19,688,205	1,327,156
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City Council	62,664	62,663	61,566	1,097
Mayor	216,780	221,944	219,033	2,911
Elections	96,830	98,828	91,534	7,294
Assessor	457,094	537,398	496,583	40,815
Attorney	226,000	252,500	249,340	3,160
Clerk	408,789	430,791	417,270	13,521
Finance department	587,828	613,752	608,914	4,838
Personnel	254,216	255,218	242,513	12,705
Treasurer	396,638	410,803	416,376	(5,573)
Building and grounds	2,303,021	2,256,104	2,260,476	(4,372)
City-owned property	17,000	27,028	18,749	8,279
Cemetery	136,270	133,049	129,646	3,403
Board of Review	2,361	2,260	969	1,291
Tax Tribunal refunds	-	50,000	6,568	43,432
Nondepartmental	346,321	346,321	361,775	(15,454)
Public safety:				
Police	6,992,310	7,348,235	7,183,897	164,338
Fire	1,760,999	1,971,598	1,838,670	132,928
Building inspection	1,366,161	1,378,290	1,157,049	221,241
Planning	322,421	335,335	303,419	31,916
Zoning	-	(3,000)	186	(3,186)
Emergency preparedness	81,382	149,052	103,200	45,852
Community and economic development:				
Community service	21,000	21,000	20,813	187
Community and development	46,410	46,557	36,185	10,372
Public relations	64,000	65,415	41,847	23,568
Public works:				
Department of Public Works	559,245	582,782	571,654	11,128
Drains-at-large	127,500	127,500	97,477	30,023
Health and welfare:				
Ordinance	297,656	304,089	293,781	10,308
Animal control	210,576	216,680	217,668	(988)

# City of Romulus, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows) (Continued)</b>				
Recreation and cultural:				
Recreation	\$ 674,131	\$ 691,392	\$ 670,555	\$ 20,837
Library	287,772	285,159	191,180	93,979
Historical	3,350	3,350	2,442	908
Contingencies	699,000	699,000	-	699,000
Unresolved claims	50,000	-	-	-
Transfers to other funds	573,620	576,870	601,746	(24,876)
Total charges to appropriations (outflows)	19,649,345	20,497,963	18,913,081	1,584,882
<b>Fund Balance - End of year</b>	<b>\$ 282,694</b>	<b>\$ 359,275</b>	<b>\$ 3,271,313</b>	<b>\$ 2,912,038</b>

## **Other Supplemental Information**

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# City of Romulus, Michigan

	Nonmajor Special Revenue Funds				
	Major Streets	Local Streets	Cable TV	911	Sanitation
<b>Assets</b>					
Cash and investments	\$ 1,742,934	\$ 371,363	\$ 224,473	\$ 180,425	\$ 34,726
Taxes receivable	-	-	-	-	99,749
Special assessment receivable	-	-	-	-	-
Accounts receivable	269,570	8,385	58,922	29,365	-
Due from other funds	-	25,000	-	-	-
Due from other governmental units	190,589	71,046	-	-	103,739
Inventories	51,823	77,735	-	-	-
Total assets	<u><b>\$ 2,254,916</b></u>	<u><b>\$ 553,529</b></u>	<u><b>\$ 283,395</b></u>	<u><b>\$ 209,790</b></u>	<u><b>\$ 238,214</b></u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 293,283	\$ 24,938	\$ -	\$ 4,567	\$ 66,600
Accrued wages	10,360	19,897	5,843	-	-
Retainage payable	-	10,284	-	-	-
Due to other funds	-	-	-	-	-
Accounts payable to component units	-	-	-	-	1,019
Deferred revenue	261,815	-	-	-	68,580
Total liabilities	565,458	55,119	5,843	4,567	136,199
<b>Fund Balances</b>					
Reserved	51,823	77,735	-	-	-
Unreserved:					
Designated	65,525	262,333	89,292	43,000	102,004
Undesignated	1,572,110	158,342	188,260	162,223	11
Total fund balances	1,689,458	498,410	277,552	205,223	102,015
Total liabilities and fund balances	<u><b>\$ 2,254,916</b></u>	<u><b>\$ 553,529</b></u>	<u><b>\$ 283,395</b></u>	<u><b>\$ 209,790</b></u>	<u><b>\$ 238,214</b></u>



**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

Community Development Block Grant	Street Lighting	Narcotics Enforcement	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 149	\$ 63,302	\$ 481,506	\$ 77,617	\$ 165,651	\$ 3,342,146
-	-	-	-	-	99,749
-	-	-	-	1,445,445	1,445,445
-	34,846	-	-	-	401,088
20,892	-	-	-	-	45,892
78,734	-	-	-	-	444,108
-	-	-	-	-	129,558
<b>\$ 99,775</b>	<b>\$ 98,148</b>	<b>\$ 481,506</b>	<b>\$ 77,617</b>	<b>\$ 1,611,096</b>	<b>\$ 5,907,986</b>
\$ 61,777	\$ 27,318	\$ 2,109	\$ -	\$ -	\$ 480,592
-	-	990	173	-	37,263
-	-	-	-	-	10,284
-	-	-	22,573	-	22,573
-	-	-	-	-	1,019
4,682	-	206,587	-	1,404,470	1,946,134
66,459	27,318	209,686	22,746	1,404,470	2,497,865
33,316	-	109,672	-	-	272,546
-	22,000	162,148	32,115	-	778,417
-	48,830	-	22,756	206,626	2,359,158
33,316	70,830	271,820	54,871	206,626	3,410,121
<b>\$ 99,775</b>	<b>\$ 98,148</b>	<b>\$ 481,506</b>	<b>\$ 77,617</b>	<b>\$ 1,611,096</b>	<b>\$ 5,907,986</b>

# City of Romulus, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Cable TV	911	Sanitation
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 621,468
Federal sources	-	-	-	-	-
State sources	1,122,524	418,038	-	-	-
Fines and forfeitures - State	-	-	-	-	-
Interest income	18,262	3,841	2,261	2,167	1,403
Other	43,093	102,329	119,577	129,083	14,812
Total revenue	1,183,879	524,208	121,838	131,250	637,683
<b>Expenditures</b>					
Current:					
General government	-	-	116,021	-	-
Public safety	-	-	-	153,322	-
Public works	1,522,018	1,142,917	-	-	775,278
Capital outlay	-	-	-	-	-
Debt service	-	-	-	-	-
Total expenditures	1,522,018	1,142,917	116,021	153,322	775,278
<b>Excess of Revenue Over (Under) Expenditures</b>	(338,139)	(618,709)	5,817	(22,072)	(137,595)
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	305,000	-	-	-
Transfers out	(280,000)	-	-	-	-
Total other financing sources (uses)	(280,000)	305,000	-	-	-
<b>Net Change in Fund Balances</b>	(618,139)	(313,709)	5,817	(22,072)	(137,595)
<b>Fund Balances - July 1, 2003</b>	2,307,597	812,119	271,735	227,295	239,610
<b>Fund Balances - June 30, 2004</b>	<u>\$ 1,689,458</u>	<u>\$ 498,410</u>	<u>\$ 277,552</u>	<u>\$ 205,223</u>	<u>\$ 102,015</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Community Development Block Grant	Street Lighting	Narcotics Enforcement	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 325,552	\$ -	\$ -	\$ -	\$ 947,020
430,286	-	40,041	-	-	470,327
-	-	-	-	-	1,540,562
-	-	98,359	-	-	98,359
149	576	3,816	585	1,168	34,228
-	-	517	-	164,863	574,274
430,435	326,128	142,733	585	166,031	3,664,770
379,271	-	-	-	-	495,292
-	-	184,943	-	-	338,265
-	293,769	-	-	-	3,733,982
-	-	-	-	634	634
-	-	-	418,986	321,765	740,751
379,271	293,769	184,943	418,986	322,399	5,308,924
51,164	32,359	(42,210)	(418,401)	(156,368)	(1,644,154)
-	-	-	418,825	154,795	878,620
(18,583)	-	-	-	-	(298,583)
(18,583)	-	-	418,825	154,795	580,037
32,581	32,359	(42,210)	424	(1,573)	(1,064,117)
735	38,471	314,030	54,447	208,199	4,474,238
<b>\$ 33,316</b>	<b>\$ 70,830</b>	<b>\$ 271,820</b>	<b>\$ 54,871</b>	<b>\$ 206,626</b>	<b>\$ 3,410,121</b>

# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2004

	Vehicle and Equipment	Computer and Equipment	Property and Liability Self- Insurance Fund	Long-term Disability Self- Insurance Fund	Totals
<b>Assets</b>					
Current assets:					
Cash and investments	\$ 987,292	\$ 460,266	\$ 477,312	\$ 49,642	\$ 1,974,512
Receivables	-	9,354	-	-	9,354
Due from other funds	-	22,573	-	-	22,573
Inventories	38,932	-	-	-	38,932
Total current assets	1,026,224	492,193	477,312	49,642	2,045,371
Noncurrent assets - Capital assets	3,496,060	11,005	-	-	3,507,065
Total assets	4,522,284	503,198	477,312	49,642	5,552,436
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	50,176	2,969	-	-	53,145
Claims payable	-	-	521	-	521
Accrued wages	10,713	1,606	-	-	12,319
Current portion of compensated absences	21,756	7,492	-	-	29,248
Current portion of long-term debt	317,857	-	-	-	317,857
Total current liabilities	400,502	12,067	521	-	413,090
Noncurrent liabilities:					
Provision for compensated absences - Net of current portion	5,439	1,873	-	-	7,312
Long-term debt - Net of current portion	803,816	-	-	-	803,816
Total liabilities	1,209,757	13,940	521	-	1,224,218
<b>Net Assets</b>					
Invested in capital assets - Net of related debt	2,374,387	11,005	-	-	2,385,392
Unrestricted	938,140	478,253	476,791	49,642	1,942,826
Total net assets	<u>\$ 3,312,527</u>	<u>\$ 489,258</u>	<u>\$ 476,791</u>	<u>\$ 49,642</u>	<u>\$ 4,328,218</u>

# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2004

	Vehicle and Equipment	Computer and Equipment	Property and Liability Self- Insurance Fund	Long-term Disability Self- Insurance Fund	Totals
<b>Operating Revenue</b>					
Charges to other funds	\$ 1,610,272	\$ 421,816	\$ 320,850	\$ -	\$ 2,352,938
Other	<u>17,962</u>	<u>45</u>	<u>-</u>	<u>-</u>	<u>18,007</u>
Total operating revenue	1,628,234	421,861	320,850	-	2,370,945
<b>Operating Expenses</b>					
Salaries	278,891	58,399	-	-	337,290
Operating supplies	2,414	8,811	-	-	11,225
Repairs and maintenance	174,810	75,247	-	-	250,057
Gas and oil	148,704	-	-	-	148,704
Insurance	93,445	643	563,943	22,976	681,007
Fringe benefits	142,760	2,017	-	-	144,777
Miscellaneous	2,225	18,272	-	-	20,497
Depreciation	922,913	110,864	-	-	1,033,777
Contractual services	-	140,412	-	-	140,412
Claims and legal	<u>-</u>	<u>-</u>	<u>68,286</u>	<u>-</u>	<u>68,286</u>
Total operating expenses	<u>1,766,162</u>	<u>414,665</u>	<u>632,229</u>	<u>22,976</u>	<u>2,836,032</u>
<b>Operating Income (Loss)</b>	(137,928)	7,196	(311,379)	(22,976)	(465,087)
<b>Nonoperating Revenue (Expenses)</b>					
Investment income	7,888	3,695	5,032	741	17,356
Interest expense	(13,286)	-	-	-	(13,286)
Gain on sale of fixed assets	<u>56,293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,293</u>
Total nonoperating revenue	<u>50,895</u>	<u>3,695</u>	<u>5,032</u>	<u>741</u>	<u>60,363</u>
<b>Net Income (Loss) - Before transfers and contributions</b>	(87,033)	10,891	(306,347)	(22,235)	(404,724)
<b>Transfers from Other Funds</b>	-	3,126	-	-	3,126
<b>Capital Contributions - Vehicles purchased by Community Development Block Grant Fund</b>	<u>173,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,936</u>
<b>Net Income (Loss)</b>	86,903	14,017	(306,347)	(22,235)	(227,662)
<b>Net Assets - Beginning of year</b>	<u>3,225,624</u>	<u>475,241</u>	<u>783,138</u>	<u>71,877</u>	<u>4,555,880</u>
<b>Net Assets - End of year</b>	<u>\$ 3,312,527</u>	<u>\$ 489,258</u>	<u>\$ 476,791</u>	<u>\$ 49,642</u>	<u>\$ 4,328,218</u>

# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2004

	Vehicle and Equipment	Computer and Equipment	Property and Liability Self- Insurance Fund	Long-term Disability Self- Insurance Fund	Totals
<b>Cash Flows from Operating Activities</b>					
Receipts from other funds	\$ 1,733,456	\$ 414,176	\$ 320,850	\$ -	\$ 2,468,482
Payments to suppliers	(622,115)	(302,365)	(632,229)	(22,976)	(1,579,685)
Payments to employees	(417,279)	(55,551)	-	-	(472,830)
Internal activity - Payments to other funds	(13,983)	-	-	-	(13,983)
Claims paid	-	-	(37,787)	-	(37,787)
Net cash provided by (used in ) operating activities	680,079	56,260	(349,166)	(22,976)	364,197
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from the sale of fixed assets	68,953	-	-	-	68,953
Proceeds from the issuance of long-term debt	989,593	-	-	-	989,593
Principal and interest paid on long-term debt	(185,770)	-	-	-	(185,770)
Purchase of capital assets	(1,454,039)	(24,723)	-	-	(1,478,762)
Net cash used in capital and related financing activities	(581,263)	(24,723)	-	-	(605,986)
<b>Cash Flows from Noncapital Financing Activities - Transfers</b>	-	3,126	-	-	3,126
<b>Cash Flows from Investing Activities - Investment income</b>	7,888	3,695	5,032	741	17,356
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	106,704	38,358	(344,134)	(22,235)	(221,307)
<b>Cash and Cash Equivalents - July 1, 2003</b>	880,588	421,908	821,446	71,877	2,195,819
<b>Cash and Cash Equivalents - June 30, 2004</b>	<u>\$ 987,292</u>	<u>\$ 460,266</u>	<u>\$ 477,312</u>	<u>\$ 49,642</u>	<u>\$ 1,974,512</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>					
Operating income (loss)	\$ (137,928)	\$ 7,196	\$ (311,379)	\$ (22,976)	\$ (465,087)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation	922,913	110,864	-	-	1,033,777
Changes in assets and liabilities:					
Receivables	-	(7,685)	-	-	(7,685)
Due from other funds	114,088	-	-	-	114,088
Due from other governmental units	(271)	(22)	-	-	(293)
Inventory	(8,866)	-	-	-	(8,866)
Accounts payable	(200,245)	(58,958)	(37,787)	-	(296,990)
Accrued and other liabilities	4,371	4,865	-	-	9,236
Due to other funds	(13,983)	-	-	-	(13,983)
Net cash provided by (used in ) operating activities	<u>\$ 680,079</u>	<u>\$ 56,260</u>	<u>\$ (349,166)</u>	<u>\$ (22,976)</u>	<u>\$ 364,197</u>

# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2004

	Revolving Fund	General Tax Fund	Current Tax Fund	Delinquent Personal Property Tax Fund	Payroll Fund	Totals
<b>Assets</b>						
Cash and investments	\$ 3,147,574	\$ 127,212	\$ 2,100,906	\$ 215,298	\$ 59,766	\$ 5,650,756
Accounts receivable	500	-	1,357	-	-	1,857
Due from other governmental units	-	-	126,397	8,866	3,096	138,359
Total assets	<u>\$ 3,148,074</u>	<u>\$ 127,212</u>	<u>\$ 2,228,660</u>	<u>\$ 224,164</u>	<u>\$ 62,862</u>	<u>\$ 5,790,972</u>
<b>Liabilities</b>						
Due to other governmental units	\$ 220,007	\$ 127,212	\$ 2,228,524	\$ 123,859	\$ -	\$ 2,699,602
Accrued and other liabilities	2,928,067	-	136	100,305	62,862	3,091,370
Total liabilities	<u>\$ 3,148,074</u>	<u>\$ 127,212</u>	<u>\$ 2,228,660</u>	<u>\$ 224,164</u>	<u>\$ 62,862</u>	<u>\$ 5,790,972</u>

October 29, 2004

Honorable Mayor and Members  
of the City Council  
City of Romulus  
11111 Wayne Road  
Romulus, MI 48174

Dear Mayor and City Council Members:

We recently completed the audit of the financial statements of the City of Romulus, Michigan for the year ended June 30, 2004.

### STATE SHARED REVENUE

State shared revenue accounts for approximately 12% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

In December 2005, the State held an impromptu Revenue Estimating Conference as a result of concerns over forecasted FY 2004/2005 revenue. The Conference revealed that total revenue for the State's FY 2004/2005 budget would be \$370 million less than the May 2004 estimate which was used to determine the State's recently adopted budget for FY 2004/2005. Even though approximately \$113 million of this shortfall relates directly to the School Aid Fund (and only about \$257 million was attributable to the General Fund), the Administration and the Legislature have maintained that there will be no reduction to the per-pupil funding level for FY 2004/2005. Therefore, the State's General Fund is expected to have a \$370 million shortfall that will require a budget amendment to resolve. Statutory revenue sharing for FY 2004/2005 is at risk again and may require the City to amend its budget prior to June 30, 2005.



## STATE SHARED REVENUE (continued)

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Citizens Research Council announced in November 2004 that the shortfall for State's FY 2005/2006 could be as high as \$1 billion. Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2000
2000	\$1,371,863	\$1,552,124	\$2,923,987	\$0
2001	\$1,491,157	\$1,358,760	\$2,849,917	\$74,070 (2.5%)
2002	\$1,506,347	\$1,203,989	\$2,710,336	\$213,651 (7.3%)
2003	\$1,531,849	\$1,018,967	\$2,550,816	\$373,171 (12.8%)
2004	\$1,515,209	\$777,344	\$2,292,553	\$631,434 (21.6%)

We will continue to update the City as developments occur.

## LONG-TERM FINANCIAL PLANNING

The City had unreserved and undesignated General Fund fund balance at June 30, 2004 of approximately \$1.2 million. This included certain one-time revenue in 2004 that is not expected to repeat again in future years (excess airport parking fees received, building permit revenue related to Airport construction in past years and land sale revenue). These one time revenues allowed the City to avoid a significant reduction to General Fund fund balance. The City's unreserved and undesignated General Fund fund balance excludes almost \$2 million of fund balance that was earmarked to balance the City's adopted budget for its 2004/2005 fiscal year. Based on initial projections for the City's 2005/2006 fiscal year, it is expected that the City will require an additional \$2 million to balance that budget. Currently, the City's remaining unreserved and undesignated General Fund fund balance is not sufficient to balance the shortfall projected for the City's 2005/2006 fiscal year.

### **LONG-TERM FINANCIAL PLANNING (continued)**

This is a similar challenge faced by other Michigan local units of government (not just Romulus). The situation with the State's structural budget shortfall and the impact on statutory revenue sharing creates further uncertainty. As we have discussed in the past, property tax revenue growth on existing property is limited substantially by both the Headlee Amendment and Proposal A. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 9.5282 mills even though the City Charter would allow the City to levy 10 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

In light of recent developments, new revenue sources may exist that will improve the City's financial condition. Until that time, Romulus will experience significant financial challenges. In light of these circumstances, the City may want to develop a five-year financial model to provide the City with another tool to assist in long-term decision making. The City could also extend this process to its water and sewer fund, as the City continues to be in receipt of monies from past years related to the construction activity of the downriver sewage disposal system that will need to be considered before the project is ultimately paid for.

Honorable Mayor and Members  
of the City Council  
City of Romulus

October 29, 2004

## INTERNAL CONTROL CONSIDERATIONS

During this year's audit, we, as your City's auditors, were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled Consideration of Fraud in a Financial Statement Audit. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's engagement. As a result, several of the comments noted below directly result from the additional procedures applied through the implementation of SAS 99.

**Account Reconciliations** – It is our understanding that several of the City's asset account balances (investments, water and sewer receivables, etc.) are currently being reconciled on an annual basis. We would recommend the City review its reconciliation procedures to ensure that all accounts are being reconciled timely and that the reconciliations are reviewed and initialed by an individual independent of the process to ensure timeliness and accuracy of preparation. In addition, as in the past, the City does not have a detailed delinquent personal property tax listing that reconciles to the general ledger. We continue to encourage the City's Treasurer's office to develop a process to accomplish this.

**Cash Receipts** – Currently one individual has cash receipting and cash depositing responsibilities. In addition, cash reconciliations of daily activity and voided receipt reports are prepared, but not currently being reviewed. We would recommend the City review cash receipt procedures to ensure adequate segregation of duties exists and the receipt reconciliations and void reports are reviewed and initialed by an individual independent of the process to ensure timeliness and accuracy of preparation.

**Employee Pay Rate Changes** - Currently, the same individual is responsible for adjusting employee pay rates and processing payroll. The pay rate changes are not currently being reviewed. We would recommend the City consider designating an individual outside of the payroll process to periodically review payroll status change reports to ensure accuracy of reporting.

**Remote Location Cash Receipts** – Last year, the Building Department changed locations and began to accept payment for permits issued. We had several comments and recommendations in during last year's audit related to the cash receipt processes at the new site. While the department has incorporated some of these items into their procedures during the current year, we offer the following additional comments and recommendations:

- Occasionally, building permits are issued to customers before payment is received. The clerk issuing the permit makes a notation in the computer system that the permit is inactive due to non-payment. Once the customer has made the payment, the clerk must remember to remove the non-paid status from the customers account. To ensure that payment is received for all permits issued, the Building Department should consider not allowing customers to receive a permit unless payment is received.
- Checks received at the Building Department are not being restrictively endorsed until the daily receipts are forwarded to the Treasurer's Office. We would recommend checks received at remote locations be restrictively endorsed upon receipt by that location.

Honorable Mayor and Members  
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City of Romulus

October 29, 2004

## **INTERNAL CONTROL CONSIDERATIONS (Continued)**

**Property Tax Remittances** – During the current year, there was turnover in the Treasurer's office. As a result, this impacted the City's property tax collection and distribution process. The City's tax billing and collection process is very complex, given the multiple school districts and tax increment authorities within the City. Distributions to other taxing jurisdictions are subject to a variety of laws and regulations. It is also our understanding that the City may have overdistributed collections to certain governmental units. We strongly encourage the City's Treasurer's office to work with the Finance Department and Assessor's office to review its billing, remittance and reconciliation procedures related to tax collections on behalf of other governmental units to ensure the appropriate funds are being remitted in accordance with applicable regulations, particularly in light of the change in personnel and complex regulations.

## **RETIREE HEALTH CARE – GASB 45**

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for Romulus for the year ended June 30, 2008 and will minimally require an updated actuarial valuation at that time. However, we encourage the City to obtain an updated actuarial valuation sooner to determine the impact of the new requirement on the City's budget.

## **OTHER LEGISLATIVE MATTERS**

### **Transportation Matters**

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement or reconstruction of existing bridges. It is estimated that over the next 10 years that approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well seven, five member, regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Honorable Mayor and Members  
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City of Romulus

October 29, 2004

## **OTHER LEGISLATIVE MATTERS (continued)**

### **Health Care Costs**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

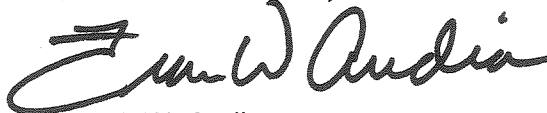
### **MUNICIPAL FINANCE ACT REVISIONS – REMINDER**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (December 31, 2004) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

**PLANTE & MORAN, PLLC**



Frank W. Audia



Stacey L. Reeves